

July 11, 2025

Dear Friend of Valara Capital Management,

For the second quarter and six months ended June 30, 2025, Valara Partners, LP. produced returns, net of fees, of 8.82% and 16.87%, versus 10.94% and 6.20% for the S&P 500, respectively.

QUARTERLY REVIEW

Many of you know that I am fond of the saying “markets hate uncertainty.” I believe this remains a fundamental, even mathematical, truth. However, one would get a lot of sympathy from me for pointing out its seeming irrelevance in the present environment. The second quarter kicked off with “liberation day” tariffs and while much of the uncertainty remains, the immediate market reaction has completely reversed. It doesn’t stop there. The simmering hostility in the Middle East morphed into a twelve-day, intense, conflict, which ultimately required US involvement (bunker busters) to obtain the requisite success/face saving to force it to closure. Bravo - for now. Ukraine has knocked around in the background for a few months, but it hasn’t gone away and appears to be reemerging as a market variable. Japan, which is a major factor in global capital markets, through its carry trade, continues to emit signal flares (long bond interest rates) that trouble is brewing. The most you can say about the economic data is that it is inconclusive, with jobs and inflation better than feared, while consumer spending remains subdued. The cherry on top, for the quarter, was the passage of the One Big Beautiful Bill (OB BB) – Trump’s centerpiece legislation. At the outset, it appears to be a real budget buster (more below). Its advocates presumably believe that one final (?) bout of can kicking is necessary to bridge the gap to a stronger, more US centric (production), economy. They may be right, but spending in DC rarely (never?) goes in reverse.

Although the above is an incomplete list, it’s an epic amount of uncertainty. The aching question is: why have the markets remained so resilient/ebullient? To this I would offer two explanations. First, they have become accustomed to the effectiveness of buying every dip. Who can argue? Buying the 1987 crash, the LTCM crisis (1998), the dot-com bust, the 2008 financial crisis, Covid, etc., all proved immensely (and immediately) profitable – largely because the Fed/Treasury reliably and effectively stepped in to backstop markets. It’s the modern version of never bet against America (we cheat because we can). The latest version of that appears to be the OB BB. If markets hate uncertainty, they LOVE Federal Reserve supplied liquidity and fiscal largess (up to a point). I am still wondering where all this ends. I have my fingers crossed that Trump’s deregulation and tariff plans yield a boom in revenues and ultimately a resurgence in decent paying domestic jobs and a growing tax base – we are going to need it.

The events of the second quarter were much like the immediate effects of an earthquake. Despite the natural focus on the events, the more lasting changes will be in the underlying landscape. The forces, culminating in the election of Trump for a second term, have been building for decades. We ignored the decline of our middle class, as evidenced by the falling share of wages as a percentage of GDP. We offshored mission critical manufacturing. The issues in the Middle East, admittedly complex, have defied diplomacy for generations and our military engagements have not helped. We reneged on our long-standing promise that NATO countries would never border Russia. We abandoned all discipline with respect to our immigration and social policies. While these issues festered, we maintained the comfortable status quo by riding on our reputation while enjoying the wave of deflation in goods prices associated with offshoring, freely committing our military, and going ever deeper into debt. The United States is now recognizing that it cannot go on as it has in the past. This is jarring to everyone, and it will impact our global relationships. Our approach has quickly become more heavy handed. With respect to the tariffs, it’s “our way or the highway.” We were apparently negotiating with Iran (feigning diplomacy) while secretly planning to destroy their nuclear facilities and assassinate their scientists. The OB BB leans heavily on our foreign creditors to once again support our inability to balance our finances. While I sympathize in all of these cases, I fear that our conduct will undermine our credibility. Much like the Biden administration’s seizing of Russia’s reserve assets, these actions may cause our partners to reevaluate their view of America’s leadership.

PERFORMANCE COMMENTARY

The Russell 1000 Growth index produced an impressive rebound in the second quarter, returning almost 18%. The S&P return was 10.94% and the Russell 1000 Value brought up the rear with 3.79%. The leading sectors were Technology, Gold Mining (not a sector but important to Valara), Industrials and Communication Services. The major laggards were Energy, Health Care, Real Estate and Staples. Our large overweight in the Gold Miners more than offset our underweight in Technology but our overweight in Energy drove our sector weighing to a modest negative. Our stock selection was a net positive with Mosaic, Fluor, Newmont, Kinross, Citigroup and Franklin Resources all up 20% or more (MOS up 35% and FLR up 43%). Our worst performers were all Energy names: NOV, Baker Hughes and Murphy Oil. In total, we lagged the S&P 500 (not surprising with Tech leading) but significantly outperformed Value.

Our trading picked up with the volatility created by the Liberation Day related “panic” (early April). Many of our cyclical and energy names sold off significantly, while the mining stocks surged - following precious metals prices. We aggressively trimmed our mining positions into this move to fund additions to Fluor, Murphy, NOV, BorgWarner, Viatris and Warner Brothers Discovery. By the end of the quarter that trading had paid off handsomely.

OUTLOOK

From an economic perspective, the second quarter was “so far so good.” With the passage of the OBBB that is likely to continue. The markets have interpreted the bill as a tailwind for the economy and support for markets. In past letters I have suggested that any economic/market weakness would be met with a renewed bout of borrow and spend. It is now officially in place if needed – the debt ceiling has been raised and the Fed is standing by. The austerity of DOGE has faded as a threat. The US dollar does not like the looks of any of this – declining an impressive 7% in the quarter. I mentioned the troubling signs from the Japanese bond market but should note that our bond market isn’t performing much better. Despite some reassuring data on inflation, the 10-year yield has remained stubbornly high. The tariffs may still prove inflationary and/or the supply of Treasuries may simply exceed demand. I remain vigilant for signs that the globally enabled borrow and spend era is ending.

Corporate earnings in the first quarter were mixed and the outlook for Q2 has been steadily revised downward but the cynic in me suspects that means earnings are poised to be beaten. We will see. Corporate America has gotten very good at this dance. The tariffs do put added pressure on managements to somehow keep prices in check while protecting margins. The consumer, particularly the working-class consumer, appears to be under pressure – highlighting the need to keep goods prices under control. Costs of insurance, healthcare, cars and housing continue to be pressure points.

For Valara, the critical factor is always valuation opportunity. Markets, as a whole, remain expensive, driven by large-cap Technology and Growth. Value remains extremely cheap. While we are very excited about our existing portfolio, we find the prospect list to be less prolific than one might think. The issue is the large number of weak or broken business models and financial derelicts. If inflation really comes back with a vengeance, select members of this latter class may become attractive. In the meantime, any significant bout of interim disinflation could push some of them to the edge. As always, we will stick to our disciplined investment process and I remain optimistic that, come what may, we are well positioned to outperform. Thank you for your continued confidence – please call or email with any comments, questions or concerns you may have.

Sincerely,



Robert W. Simmons, CFA
Managing Member

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